

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON

AMAZON.COM, INC., a Delaware
corporation,

Plaintiff,

v.

NATIONAL ASSOCIATION OF
COLLEGE STORES, INC., an Ohio
corporation,

Defendant.

No.

COMPLAINT FOR DECLARATORY
RELIEF PURSUANT TO
DECLARATORY JUDGMENT ACT,
28 U.S.C. §§ 2201-2202

Plaintiff Amazon.com, Inc. (“Amazon”) alleges for its Complaint as follows:

NATURE OF THE ACTION

1. For decades, United States college students and their families have paid the price as the college bookstores represented by defendant National Association of College Stores, Inc. (“NACS”) reaped the profits from ever increasing textbook prices. In its 2005 report to Congress, the United States Government Accountability Office indicated that between 1986 and 2004, the cost of textbooks nearly doubled—rising in price at approximately twice the rate of inflation. Combined with increasing costs for tuition and fees, the skyrocketing price of college textbooks has created a significant financial hurdle for families struggling to send their children to college.

COMPLAINT FOR DECLARATORY RELIEF - 1

1 2. Amazon and other online retailers are a key part of the solution to the problem of
2 escalating textbook prices. Historically, college students looking to buy new or used textbooks
3 had only one or two options for buying them: an on-campus bookstore and, in some areas, an
4 off-campus bookstore. Given the effective monopoly these stores enjoyed over textbook sales,
5 little incentive existed for price competition, and college bookstores were all too happy to pocket
6 their share of the billions of dollars in annual revenues that are generated by the sale of textbooks
7 at list price. Today, however, students who are unsatisfied with the prices available from college
8 bookstores have another option: they can look to online retailers like Amazon for better prices.
9 And when they do, they usually find the better prices they are seeking.

10 3. New and used college textbooks are generally available through Amazon at a
11 steep discount off of the list prices that college bookstores have traditionally charged. Amazon
12 truthfully advertises that students can save up to 30% on new textbooks, and up to 90% on used
13 textbooks. In fact, for many titles, the percentage off is even greater. These steep discounts
14 result in significant savings to college students and their families, and stand in marked contrast to
15 the traditional profit model of college bookstores, which offers little, if any, discount off of list
16 price for new books, and only a 25% discount for used books. Amazon also truthfully advertises
17 that it buys back textbooks and pays students up to 60% of their purchase price for these titles—a
18 significant premium over the buyback prices available from traditional college bookstores.

19 4. Defendant NACS and the 3,100 college bookstores it represents are threatened by
20 the lower prices that Amazon offers students on the sale of textbooks, and the high prices it
21 offers to buy back books. It is actively seeking to limit Amazon's ability to advertise these
22 prices. On March 25, 2011, NACS commenced a non-public proceeding on behalf of its
23 members against Amazon at the National Advertising Division of the Better Business Bureau
24 ("NAD") in New York City. The complaint NACS filed at NAD seeks to prevent Amazon from
25 advertising that it offers college students better prices. NACS asserts that Amazon's pricing
26

1 claims are false and misleading, and that the claims are somehow too complex to be understood
2 by consumers or substantiated by Amazon.

3 5. Amazon strongly disputes NACS's position that there is anything false or
4 misleading to consumers about the better textbook prices it advertises. Students can save up to
5 30% on new textbooks purchased at Amazon, and up to 90% on used textbooks. Students can
6 also receive up to 60% back when they sell their textbooks back at Amazon. Consumers are not
7 confused in any way by these advertising claims.

8 6. The problem for NACS and its member stores is not that consumers are confused
9 or misled by Amazon's advertisements, but that large numbers of consumers are beginning to
10 understand that if they want better prices on textbooks, Amazon is the place to find them. It is
11 thus not surprising that the only complaint of which Amazon is aware concerning its textbook
12 pricing is the one from NACS, whose bookstore members would prefer to maintain the
13 traditional profit margins they have enjoyed for decades by eliminating the threat presented by
14 Amazon's pricing. In contrast, students who buy and sell textbooks through Amazon praise the
15 program, referring to it as "best mainstream choice to get your books without breaking the
16 bank." Amazon Still Best Option for Textbooks, Daily Trojan, January 13, 2011.

17 7. Consumers are entitled to know when there are better options available to them.
18 Through this lawsuit, Amazon seeks a declaration from the Court pursuant to the Declaratory
19 Judgment Act, 28 U.S.C. §§ 2201-2002, that none of the pricing claims challenged by NACS
20 constitutes false or misleading advertising in violation of Section 43(a) of the Lanham Act, 15
21 U.S.C. § 1125(a). Amazon should be able to inform students and other consumers about the low
22 prices and deep discounts available at Amazon.com, as well as the high prices available for book
23 buybacks, and absent such a declaration, its ability to do so will be unfairly impaired.

JURISDICTION AND VENUE

8. Amazon's claims arise under the Lanham Act, 15 U.S.C. § 1051, *et seq.* This Court has jurisdiction over this action under 15 U.S.C. §§ 1331, 1338, and 2201. Declaratory relief is warranted by 28 U.S.C. §§ 2201 and 2202. Venue is proper in this District under 28 U.S.C. §§ 1391(b)(2) & 1391(c) because a substantial part of the events giving rise to Amazon's claims occurred in this District.

THE PARTIES

9. Plaintiff Amazon is a Delaware corporation with its principal place of business in Seattle, Washington. Amazon is one of the largest online retailers in the United States. Amazon began in 1995 as an online retailer of books, but now sells a broad range of merchandise including music, DVDs, consumer electronics, computers, tools, toys, clothing, shoes, jewelry, sports equipment, and automotive parts and accessories. Amazon sells many of these items itself, but also serves as a marketplace where third party retailers can offer and sell their own merchandise to Amazon's customers, often in direct competition with Amazon. Recently, Amazon began actively marketing the availability of new and used college textbooks through its website, and also began offering to buy back used college textbooks.

10. Defendant NACS is a trade association comprised of over 3,100 college and university bookstores across the United States, including college bookstores located in this District and State. Amazon competes with NACS members throughout the United States, including members located in this District and State, in the sale of college textbooks and other merchandise.

11. On information and belief, a principal goal of NACS is to help its members compete with Amazon and other online retailers. NACS's membership rules explicitly exclude online booksellers like Amazon "whose primary method of operation is to sell directly to students, bypassing the college store." In addition, NACS provides active marketing and other business advice that members can use to compete with Amazon and other online retailers. In

1 order to protect their ability to charge list price for textbooks, NACS members, through NACS,
 2 have also instituted numerous legal challenges in court and at NAD to eliminate or sharply limit
 3 the pricing claims these online retailers can make in competition with NACS's members.

4 12. On information and belief, NACS directly benefits from its members' success
 5 through membership fees that are tied to the profits of its members. In this way, a significant
 6 portion of NACS's annual operating revenues is attributable to the sale of textbooks and other
 7 merchandise sold by its members in this District and State.

8 **FACTS COMMON TO ALL CLAIMS**

9 13. Every year, college students and their families spend billions of dollars on college
 10 textbooks on top of the tuition, fees, and other expenses they pay to attend school. Like the costs
 11 of attending college generally, the price of college textbooks has risen at a rate well beyond the
 12 rate of inflation. The negative effect that the rising costs of textbooks has had on the
 13 affordability and accessibility of higher education has driven Congress and nearly three dozen
 14 states to investigate the causes of escalating textbook prices and to pass or consider passing laws
 15 to help keep these prices in check. These investigations have identified a number of factors that
 16 differentiate textbook pricing from the pricing of most other goods. One significant factor is the
 17 lack of meaningful competition faced by the traditional "brick and mortar" college bookstores
 18 represented by NACS where a large percentage of students continue to buy their textbooks.

19 **A. NACS Member Stores Profit from Selling Textbooks at List Price**

20 14. Before the advent of the Internet, most college students had only one or two
 21 options for the purchase of their textbooks: the on-campus bookstore and the off-campus
 22 bookstore, to the extent one was available. These bookstores are generally run on a for-profit
 23 basis and, if not operated by the university itself, are likely operated by one of three companies
 24 who, in addition to operating college bookstores, also dominate the distribution of college
 25 textbooks: Follett Higher Education Group, Barnes & Noble, and Nebraska Book Company.
 26

1 15. In a 2006 report to the Department of Education, the Advisory Committee on
 2 Student Financial Aid estimated that these three distributors (and a fourth that has since been
 3 acquired by Nebraska Book Company) operate over 1500 college bookstores nationwide. The
 4 report noted the significant influence these distributor-operated stores have on textbook pricing,
 5 and their ability, in conjunction with textbook publishers, to maintain high prices for new books
 6 by buying up and removing used books from the marketplace. On information and belief, most
 7 of the over 1500 bookstores operated by these three distributors are represented by NACS.

8 16. On information and belief, textbook pricing at the traditional college bookstores
 9 represented by NACS has followed a predictable model for decades: new books that possess a
 10 list price set by the publisher are sold at this list price, which is generally 20-25% higher than the
 11 wholesale cost of the books to the store. New books that lack a pre-set list price (often called
 12 “net price” textbooks) are generally marked up 20-25% so that their sale, like the sale of books
 13 with pre-set list prices, results in 20-25% of “gross profit” or “gross margin” for the college
 14 bookstore. To the extent the stores offer used textbooks as an option for a particular title, they
 15 are generally priced at only 25% off of list price.

16 17. The adherence of NACS members to list price is well documented and has been
 17 acknowledged by NACS in testimony it provided to Congress concerning the fairness of college
 18 textbook pricing:

19 College books are sold on either a "pre-priced" basis in which the
 20 intended retail price is on the book itself, or on a net-priced basis
 21 where the book cover does not contain a price. When books are
 22 pre-priced and sold to retailers on the basis of a discount from the
 23 preprinted retail price, most publishers provide college stores with
 24 only a 20-25% discount from the preprinted retail price. . . . In
 25 those situations, of course, the bulk of college stores would sell the
 26 book to students at the preprinted price, achieving a margin of 20-
 25 percent. When books are sold to stores on a net price basis with
 no preprinted retail price, stores are, of course, free to charge
 whatever price they feel is appropriate, and different college stores
 charge different amounts. However, based on industry surveys, the
 "average" markup for all textbooks has remained approximately
 22% for many years, meaning that college stores are charging

1 approximately the same margin for net priced books than for pre-
2 priced books. See Exhibit A.

3 18. On information and belief, NACS monitors and informs its membership of the
4 prices they are all charging through financial benchmarking information that NACS collects and
5 distributes, an example of which is attached as Exhibit B to this Complaint. Given the direct
6 relationship identified by NACS between gross margin and sales price, reported gross margins of
7 20-25% for new textbooks serve to signal to the NACS membership the extent to which NACS
8 stores continue to adhere to list price for sales of new textbooks.

9 19. According to NACS's most recent figures reflected in Exhibit B, 75% of its
10 membership continues to enjoy gross margins in excess of 19.9% on the sale of new textbooks,
11 and 25% enjoy gross margins in excess of 24.6%. Such margins indicate that NACS's members
12 continue to sell a very large percentage of their textbooks at or above list price—to the detriment
13 of college students and their families.

14 20. On information and belief, NACS holds frequent meetings and trade conferences
15 where its members can discuss the price competition they are facing, including from online
16 retailers such as Amazon, and different ways that they can individually and collectively eliminate
17 or otherwise respond to such competition.

18 **B. Amazon Sells New and Used Textbooks at a Significant Discount Off of List**
19 **Price, and Buys Back Books at Premium Prices**

20 21. Amazon sells new and used textbooks to college students and other customers,
21 and also buys back used textbooks. In addition, Amazon serves as a platform where third party
22 retailers ("3P Retailers") can sell new and used textbooks to college students and other customers
23 (alongside and often in competition with Amazon), and where certain of these retailers also buy
24 back used textbooks. The inventory of college textbooks that Amazon buys and sells is broad
25 and diverse and is not limited by the physical constraints of a campus bookstore.
26

1 22. The main webpage for Amazon's sale of textbooks is located at
2 www.amazon.com/textbooks. It permits students to search for books by title, by author, and by
3 ISBN. ISBN stands for International Standard Book Number. Every textbook contains an ISBN
4 that is unique to that textbook, and that differentiates it from every other textbook title, as well as
5 from different editions of the same title. ISBNs are particularly relevant in the college textbook
6 market where new editions are frequently released.

7 23. A key aspect of many of the laws passed in recent years to encourage more
8 affordable textbook prices is a requirement that colleges and universities affirmatively disclose
9 the ISBN for each of the textbooks their professors assign for their classes. Provisions to this
10 effect are contained in the textbook pricing laws passed by multiple states, including Florida,
11 Maryland, Tennessee, Virginia, and West Virginia. A primary purpose of this disclosure
12 obligation is to facilitate price competition between online retailers such as Amazon and
13 traditional college bookstores like the ones represented by NACS, because without the ISBNs
14 that relate to the specific editions required by their professor, students cannot be sure that copies
15 of a textbook title they find online are the same edition as the one assigned for class.

16 24. Amazon is not a member of NACS and, in fact, is excluded by NACS's rules
17 from becoming a member since it sells textbooks directly to consumers and not through a college
18 store. Amazon actively competes with NACS members with respect to the sale of new and used
19 textbooks, and the purchase of used textbooks. A primary point of differentiation between the
20 books available for purchase at Amazon and at NACS member stores is price.

21 25. Unlike many NACS members, Amazon regularly prices its new textbooks well
22 below the list price set by the publishers for these books. Amazon also provides students
23 immediate access to a much broader selection of used book options, and used book pricing
24 options, than any physical bookstore is capable of offering. A significant portion of new
25 textbook titles are offered and sold through Amazon at prices that are 30% or more below list
26

1 price. Used textbooks cost even less, with a significant portion offered and sold at prices that are
2 90% or more below list price.

3 26. Armed with a list of ISBNs for the textbooks required for their upcoming
4 semester or quarter, students can visit www.amazon.com/textbooks, type in or paste a copy of
5 each of the textbooks' ISBN numbers, and instantly learn for each textbook title:

- 6 (a) the price(s) at which new copies of the book are available through Amazon;
- 7 (b) the price(s) at which used copies of the book are available through Amazon;
- 8 (c) information about the condition of any used book options;
- 9 (d) information about any third party seller who is selling a particular new or used
10 book option, including the seller's rating by other Amazon customers; and
- 11 (e) whether or not, and the price at which, buy back offers are available through
Amazon.com.

12 Students can then choose, on a title by title basis, whether they want to purchase a new or used
13 book through Amazon, and at what price. Students who choose to become members of the
14 "Amazon Student" program, which is offered for free to college students, also initially get free
15 two-day shipping for all books and other items ordered.

16 27. Table 1 sets forth the sixteen titles from Amazon's Fall 2010 Top 20 best-selling
17 textbooks (based on 3P Retailer sales) that have list prices, and the lowest new and used prices
18 that were available on these titles at Amazon on May 3, 2011:

Table 1 - New and Used Textbook Prices Available at Amazon

<u>Title</u>	<u>ISBN</u>	<u>List</u>	<u>New</u>	<u>% Off</u>	<u>Used</u>	<u>% Off</u>
Biology with MasteringBiology™	978-0321543257	202.67	89.38	56%	30.41	85%
Biology: Concepts and Connections	978-0321489845	169.33	43.00	75%	15.00	91%
Business Law: Text and Cases	978-0324655223	245.95	100.00	59%	44.52	82%
Calculus: Early Transcendentals	978-1424075232	224.95	78.50	65%	31.97	86%
Principles of Microeconomics	978-0324589986	179.95	41.00	77%	5.98	97%
Chemistry: The Central Science	978-0136006176	218.67	46.00	79%	20.78	90%
Cost Accounting: A Managerial Emphasis	978-0136126638	213.33	78.00	63%	28.99	86%
Nutrition: Concepts and Controversies	978-0495390657	162.95	22.95	86%	9.98	94%
Understanding Nutrition	978-0495116691	175.95	34.95	80%	2.50	99%
Society: The Basics	978-0135018828	114.60	20.00	83%	2.86	98%
Human Anatomy and Physiology	978-0805395914	218.67	120.00	45%	98.99	55%
Principles of Macroeconomics	978-0324589993	179.95	35.00	81%	17.40	90%
Essentials of Sociology	978-0205578702	114.60	23.99	79%	8.96	92%
Human Resource Management	978-0324542752	218.95	44.94	79%	18.85	91%
Financial Management	978-0324422696	236.95	39.59	83%	15.00	94%
Elementary Statistics	978-0321500243	150.67	70.00	54%	55.00	63%

COMPLAINT FOR DECLARATORY RELIEF - 10

1 As reflected in Table 1, new versions of all sixteen of these Top 20 titles were available at more
 2 than 30% off list price, and used versions of ten of the sixteen were available at more than 90%
 3 off.

4 28. Students also have the option to sell textbooks back through Amazon in exchange
 5 for an Amazon gift card. The process is similarly simple. The student types in the book's ISBN
 6 (or title or author), evaluates the price that is offered, and chooses to accept the price if it is one
 7 that is appealing. The student is then provided a shipping label that she can use to ship the book.
 8 When the book is received, the student receives a credit to her Amazon account that she can use
 9 to purchase other textbooks or any other type of merchandise available through Amazon. The
 10 prices that Amazon pays for used textbook titles can be up to 60% (or more) of the average price
 11 at which those same titles have been sold through Amazon.

12 29. The pricing and convenience of Amazon's textbook program has been extremely
 13 popular with college students since it launched, and college students increasingly look to
 14 Amazon as their first and primary option for buying and selling textbooks. The prices available
 15 from Amazon on new and used books are a direct competitive threat to NACS members and their
 16 continued ability to profit from the sale of textbooks at list price.

17 **C. NACS Is Seeking to Limit Amazon's Ability to Tell Students There Is an**
 18 **Alternative to Buying Textbooks at List Price**

19 30. On February 2, 2011, NACS's general counsel wrote to Amazon in Seattle,
 20 Washington and informed Amazon that NACS was troubled by and therefore investigating the
 21 low prices Amazon was offering to college students on the sale of new textbooks. It asked
 22 Amazon to justify its pricing policies and informed Amazon that if it did not explain the policies
 23 to NACS's satisfaction, NACS would pursue the matter "more aggressively." Alternatively,
 24 NACS suggested that it may commence a legal challenge to Amazon's ability to advertise that it
 25 offers textbooks at up to 30% off of list price.

31. Amazon responded in writing on February 18, 2011, and informed NACS that it had proper support for its pricing claims, but that it would not discuss or share its pricing or other competitive information with NACS. Amazon also informed NACS that it strongly rejected any suggestion by NACS that it should raise its textbook prices.

32. On March 25, 2011, NACS commenced a formal legal challenge at NAD that seeks to sharply limit Amazon's ability to advertise the discounted prices that are available to students who buy new and used textbooks at Amazon, and the high prices that are available to students who sell their books back at Amazon. Specifically, NACS contends that the following advertising claims by Amazon are literally false and/or otherwise materially misleading to consumers:

- SAVE UP TO 30% ON NEW TEXTBOOKS
- SAVE UP TO 90% ON USED TEXTBOOKS
- GET UP TO 60% BACK WHEN YOU SELL TEXTBOOKS BACK AT AMAZON

33. Throughout its NAD complaint, NACS argues that these advertising claims are too complicated to substantiate and in so doing, invites NAD to direct Amazon to cease using them altogether, or risk a referral of the matter by NAD to the Federal Trade Commission for investigation. On information and belief, NACS intends through the proceeding it commenced at NAD to unjustly limit Amazon's legal right to inform customers of the better textbook pricing available at Amazon, and to otherwise constrain Amazon's ability to fairly compete with NACS's member stores, including stores in this District and State.

D. A Concrete Dispute Exists Between Amazon and NACS as to Whether Consumers Are Being Misled by Amazon's Textbook Pricing Claims

34. Amazon strongly disputes NACS's position that there is anything false or misleading to consumers about the advertising claims that NACS is challenging. Students can save up to 30% on new textbooks purchased at Amazon, and up to 90% on used textbooks.

1 Students can also receive up to 60% back when they sell their textbooks back at Amazon. As
2 made clear by the use of the phrase “up to,” these discount and premium rates are not available
3 for every textbook title bought or sold through Amazon but they are available for a significant
4 percentage of titles.

5 35. Amazon intends to continue using the textbook advertising claims that NACS
6 asserts are false and misleading to inform college students and their families that better textbook
7 pricing is available through Amazon. Given NACS’s stated position, and the actions it has
8 already taken to prevent Amazon from using these claims, there is a real, substantial, and
9 immediate controversy between the parties, and Amazon’s ongoing use of the claims will be
10 unfairly impaired unless and until the Court declares that they are not false or misleading, and
11 thus do not violate the Lanham Act.

12 **CLAIM FOR RELIEF**

13 36. Amazon repeats and realleges paragraphs 1 through 34 above as if fully set forth
14 herein.

15 37. Amazon seeks a declaration of its rights, pursuant to 28 U.S.C. §§ 2201 & 2202,
16 that the advertising claims NACS has challenged as false and misleading do not violate Section
17 43(a) of the Lanham Act, 15 U.S.C. § 1125(a).

18 38. NACS asserts that certain of Amazon’s advertising claims are literally false or
19 misleading and that the claims are material to the purchasing decision of consumers. NACS’s
20 allegations, if proven true by NACS, would constitute false advertising and/or unfair competition
21 in violation of Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a).

22 39. Contrary to NACS’s assertions, the low prices that Amazon advertises for its sale
23 of new and used textbooks prices, and the high prices it offers for textbook buybacks, are true
24 and not misleading. They do not violate the Lanham Act.

1 DATED: May 3, 2011.

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